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IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

Board of Land and
Natural Resources
State of Hawaii
Honolulu, Hawaii

Issuance of a Concession Agreement for the Statewide In-Bond (Duty Free)
Concession At State Airports in the State of Hawaii

The Department of Transportation (DOT) proposes to offer a new Concession Agreement for the Statewide In-Bond (Duty Free) Concession covering all state airports in the State of Hawaii airport system (Concession). The following contains a description and summary of some of the major terms and conditions that the DOT anticipates incorporating into the Concession Agreement (Agreement):

PURPOSE:

To award the Agreement to a qualified Concessionaire submitting the highest bid to exclusively operate the Concession at all state airports within the State of Hawaii.

LEGAL REFERENCE:

Chapter 102, and Section 261-7, Hawaii Revised Statutes, as amended.

LOCATION:

Honolulu International Airport;
Kona International Airport at Keahole,
Hilo International Airport;
Kahului Airport; and
Lihue Airport.

PREMISES:

- At the Commencement of the Agreement – Honolulu International Airport

- A. Bldg. 342, Central Waiting Lobby, Space No. 273N containing an area of approximately 10, 769 square feet (sales).
- B. Bldg. 344, Ewa Extension, Space Nos. 140A, 140C, 140D, and 291, containing a total area of approximately 5,182 square feet (warehouse).
- C. Bldg. 344, Ewa Extension, Space No. 291, containing an area of approximately 143 square feet (sales).
- D. Bldg. 360, Ewa Concourse, Space No. 208A, containing an area of approximately 356 square feet (sales).
- E. Bldg. 363, Diamond Head Connecting Link, Space No. 225, containing an area of approximately 138 square feet (sales).
- F. Bldg. 363, Diamond Head Extension, Space No. 239, containing an area of approximately 4,320 square feet (sales).

During the term of the Agreement – Honolulu International Airport

The DOT may, at the DOT's sole discretion, require or permit the Concessionaire to add additional spaces at Honolulu International Airport (HIA), Kona International Airport at Keahole (KIA), Hilo International Airport, Kahului Airport, and Lihue Airport.

If the DOT, in its sole discretion, agrees to make available to the Concessionaire, at the Concessionaire's request, additional space over and above the spaces initially allocated under the Agreement, the Concessionaire shall pay rental for such additional space as follows:

- (1) floor rent equal to the square footage of such additional space multiplied by the rates and charges applicable to such additional space as established by the DOT; and
- (2) the gross receipts received or realized by the Concessionaire from or otherwise attributable to such additional space shall be included in the percentage fee obligation payable by the Concessionaire under the Agreement.

If the DOT, at its sole discretion, requires the Concessionaire to take or use additional space over and above the space initially allocated under the Agreement, the Concessionaire shall not be obligated to pay floor rent for such space but shall include the gross receipts received or realized by the Concessionaire from or otherwise attributable to such additional space in the percentage fee obligation payable by the Concessionaire under the Agreement.

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ZONING:

Honolulu – Land Use: Urban/County: Industrial (12)
Kona at Keahole – Land Use: Urban/County: Industrial (MG1a)
Hilo – Land Use: Urban/County: Industrial (ML20)
Kahului – Land Use: Urban/County: Airport
Lihue – Land Use: Urban/County: Industrial (IG-STP)

TAX MAP KEY:

1st Division – 1-1-03:Portion of 1 (Honolulu)
3rd Division – 7-3-43:Portion of 1 (Kona at Keahole)
3rd Division – 2-1-12:Portion of 9 (Hilo)
2nd Division – 3-8-01:Portion of 19 (Kahului)
4th Division – 3-5-01:Portion of 8 (Lihue)

LAND STATUS:

Honolulu	-	Section 5(a) and 5(b), Hawaii Admission Act DHHL 30% entitlement lands Yes___ No <u>X</u>
Kona at Keahole	-	Section 5(b), Hawaii Admission Act DHHL 30% entitlement lands Yes___ No <u>X</u>
Hilo	-	Section 5(b), Hawaii Admission Act DHHL 30% entitlement lands Yes___ No <u>X</u>
Kahului	-	Section 5(a), Hawaii Admission Act DHHL 30% entitlement lands Yes___ No <u>X</u>
Lihue	-	Section 5(a), Hawaii Admission Act DHHL 30% entitlement lands Yes___ No <u>X</u>

TERM:

To be determined by the Director of Transportation. The DOT is presently considering a term of five (5) years, but has asked the Federal Aviation Administration for a waiver of its five (5) year term limitation for exclusive concessions, to enable DOT to issue the concession for a ten (10) year term.

CONCESSION FEE:

- Concession Fee. The total annual Concession Fee for each year of the Agreement term shall be calculated by adding the minimum annual guaranteed fee proposed by the successful bidder to the applicable percentage fees as follows:
 - a. Minimum Annual Guaranteed Fee. For the term of the Concession Agreement, the minimum annual guaranteed fee (hereafter the “MAG”) shall be the concession fee amount proposed by the Concessionaire in its bid proposal.
 - b. Percentage Fee. The Concessionaire shall pay to the STATE the required MAG amounts plus a percentage fee based on the following schedule:

<u>Sales (millions)</u>	<u>On-airport</u>	<u>Off-Airport</u>
Under \$150,000,000.00	No additional percentage fee	
\$150,000,000.00 - \$190,000,000.00	22.5%	18.5%
\$190,000,000.01 - \$230,000,000.00	30.0%	22.5%
\$230,000,000.01 - \$270,000,000.00	30.0%	26.5%
Over \$270,000,000.00	30.0%	30.0%

- c. Percentage Fee Calculation. The Percentage Fee shall be calculated as follows: the amount of the gross receipts which falls in each of the sales steps above shall be multiplied by the percentage that each category of gross receipts (on-airport or off-airport) represents of the total gross receipts and by the applicable percentage for the category.

The Concession rent described herein may be subject to change and further modification prior to the deadline for submitting bid proposals for the Concession.

IMPROVEMENTS:

The Concessionaire will be required to invest a minimum total of \$1,750,000.00 for improvements, certain fixtures and equipment on or within the premises of the spaces assigned under the Concession Agreement in accordance with DOT and county building standards. No less than \$1,740,000.00 of the minimum total shall be allotted to the Sales Space and no less than \$10,000.00 for the Non-Sales area. The DOT may establish separate minimum investment amounts for improvements, store fixtures and equipment applicable to any space added over and above the spaces initially allocated in the Agreement.

BASIS OF AWARD:

The award of the Concession Agreement will be to the highest responsible bidder, based upon the total amount of the MAG bid for the term of the Concession Agreement, which MAG bid shall not be less than the minimum upset rent of THIRTY-EIGHT MILLION DOLLARS (\$38,000,000.00), and which bid proposal has also met or exceeded the DBE goal, qualifications and requirements.

REMARKS:

The Statewide In-Bond (Duty Free) Concession is the largest single concession revenue source for the DOT's airport system and an amenity that is welcomed by international travelers. The new Concession Agreement is a part of DOT's plan to continually improve its concession program and airport terminal operations to enhance the airport experience for travelers.

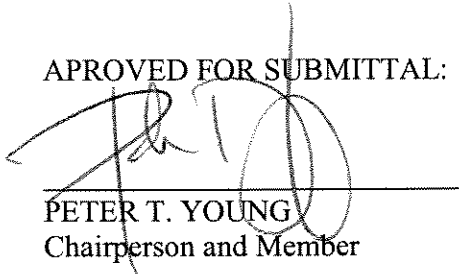
RECOMMENDATION:

That the Board authorize the call for sealed bid tenders and issuance of a new Statewide In-Bond (Duty Free) Concession as hereinabove outlined, subject to (1) such other terms and conditions as may be prescribed by the Director of Transportation to best serve the interests of the State; and (2) review and approval of the Department of the Attorney General as to the lease form and content.

Respectfully submitted,


RODNEY K. HARAGA
Director of Transportation

APPROVED FOR SUBMITTAL:


PETER T. YOUNG
Chairperson and Member